INVESTING IN LATIN AMERICA THE ADR WAY

BY MICHELE WUCKER

With a wealth of natural resources, a growing middle class and close ties to the U.S., Latin America is also the home of world-class companies. Latin America is the emerging-market region with the longest history of economic reform and deepest investment base. It provides potentially greater opportunities for higher returns than in developed markets, but with greater liquidity and lower risk than many other emerging markets.

Investing in Latin America is easy using a deceptively simple tool: the American Depositary Receipt (ADR), a convenient, low-cost way for U.S. investors to diversify by adding non-U.S.-based companies to their portfolios. ADRs represent shares of international blue-chip firms that are listed in the U.S. and quoted in U.S. dollars.

Over the first quarter of 2006, the two most heavily traded ADR programs were from Brazil — the oil giant Petrobras and the mining and forestry conglomerate Companhia Vale do Rio Doce (CVRD). Two Mexico-based companies are also in the top ten: the telecommunications firm América Móvil and the cement maker Cemex. These firms share more than simply being based in Latin America. All are global leaders in their fields.

TRACK RECORD, NOT HYPE

For all the hype about India and China these days, Latin America is still by far the most advanced emerging market and still attracts one in five U.S. investment dollars. In terms of U.S. institutional investment, Latin America is the second-largest region in the world, with $139.1 billion, behind developed Western Europe, but far ahead of Asia and emerging Middle East, Eastern Europe and Africa.

"Latin America has a track record of offering its securities to the U.S. markets that has lasted over ten years," says JPMorgan's head of depositary receipts for Latin America, Yxa Bazán. "Of all the emerging regions, Latin America is a seasoned market that investors have learned to understand, which positions it for continued growth and deeper capital reach."

To be sure, investors face political and economic risk in Latin America, just as in other emerging markets. A dozen countries will elect new governments in 2006, bringing the uncertainty that always comes with change. Headlines have focused on the rise of leftist, confrontational leaders in countries like Venezuela and Bolivia. Nevertheless, markets across the region have been remarkably stable. In part, this is because investors have seen a long history of ups and downs. It is also because Latin American markets and economies have made significant changes in recent years to promote economic stability through responsible fiscal policies combined with flexible exchange rates and monetary regimes.

"Regulatory and oversight systems have improved and valuable experience has been gained in risk prevention and management," the Inter-American Development Bank said in

Companhia Vale do Rio Doce (CVRD)

This global diversified mining company is a powerful cash machine that has generated an average dividend yield of 5.3% over the past five years. Its focus, however, is on the future and on continual improvement, from investor relations to value creation and corporate social responsibility.

The largest metals and mining firm in the Americas and the leading producer of iron ore pellets worldwide, CVRD also is a significant producer of manganese, aluminum and copper.

It is pursuing an aggressive growth strategy through investment in ten countries on four continents for exploration for minerals including bauxite, potash, copper, nickel and both metallurgical and thermal coal.

CVRD also is a major provider of logistics services in Brazil through the three railroads and eight maritime terminals that it owns and operates.

Country: Brazil
Sector: Mining
Market Capitalization: $60 billion
NYSE Symbol: RIO
ADR:ORD 1:1
Date of Issue: March 20, 2002
Web site: www.cvrd.com.br

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- Yxa Bazán
Head of Depositary Receipts for Latin America, JPMorgan

its 2006 regional economic outlook. Still, the region faces challenges going forward, including continuing to lower indebtedness, preserving central bank independence and remaining alert to inflationary pressures.

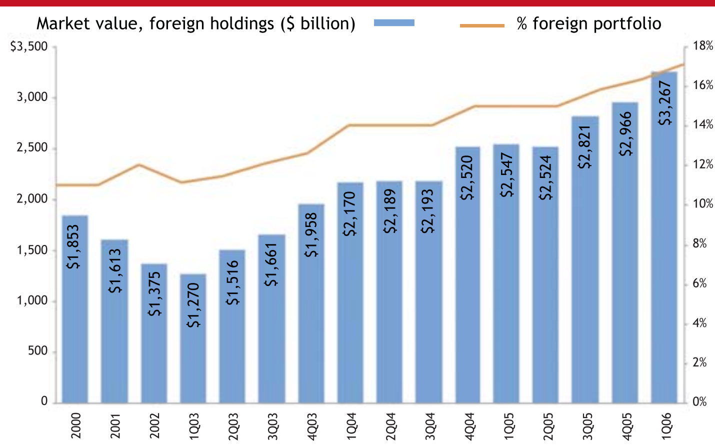
GLOBALIZING YOUR PORTFOLIO

Allocating investments among different risk and return scenarios is part of a smart portfolio strategy, particularly through a combination of different developed and emerging economies in different regions. Even when the world's economies move in tandem, currency and equity markets still tend to move independent of each other. Over time, the currency impact of owning foreign shares evens out, so investors' portfolios can benefit whether the dollar is rising or falling against other currencies. Although ADRs are quoted in dollars and pay dollar dividends, their price still depends in part on the exchange rate in their home market. But because ADRs are traded in New York, investors do not have to worry about currency conversion.

U.S. investors recently have become much more comfortable with and sophisticated about putting their money into foreign equities. From less than 2% of U.S. portfolios in the 1980s, U.S. investment in non-U.S.-based equities has risen to 17% today. That's more than $3 trillion invested abroad, a number that likely will continue to rise. The credit rating agency Standard & Poor's recently recommended that investors allocate 20% of their portfolios to foreign equities.

ADRs are an essential part of a diversified investment strategy because of the way they bridge differences among global market rules and practices. They simplify exchange rate accounting, reduce custody costs, increase tax efficiency, eliminate the need to research local regulations and ensure technological compatibility. As U.S. securities, they settle in three days.

Level of foreign investment—U.S. investment in foreign equities (ADR and local shares), 2000—1Q2006



Source: Federal reserve, June 2006 (1Q data available as of 06/08/06)

Desarrolladora Homex

Marking up compound average growth of 80% over the last four years, this Mexican home builder is the fastest-growing company in a white-hot sector. Homex benefits not only from demographics and a growing economy, but also from the rapidly expanding access to mortgages.

Mexico has an estimated deficit of 4 million homes, and demand for an additional 750,000 new homes each year. With a nationwide footprint, the company sold 38,000 homes in 2005 alone, at an average price of about $25,000

Alongside rising overall sales, profit margins have increased steadily too. Homex expects to hit a margin of 23.5% by the end of 2006.

Even as its numbers attract attention abroad, Homex has won praise — plus customer loyalty and word-of-mouth marketing — at home through its socially responsible education and community development programs, as well as its sponsorship of an annual telethon to benefit disabled children.

Country: Mexico
Sector: Construction
Market Capitalization: $2.1 billion
Annual Sales: $921 million in 2005
NYSE Symbol: HXM
ADR:ORD: 1:6
Date of Issue: June 20, 2004
Web site: www.homex.com.mx

Most widely held ADR programs
$ millions

Name	13F value
BP Plc	$32,433
Petroleo Brasileiro SA—Petrobras	25,231
America Movil SA de CV	22,816
Royal Dutch Shell Plc	21,386
Teva Pharmaceutical Industries	20,195
Nokia OYJ	19,996
Cia Vale do Rio Doce	16,434
Glaxosmithkline Plc	14,986
Novartis AG	14,427
Total SA	11,394

Source: JPMorgan, Thomson Financial, June 2006

Companies with exchange-listed ADRs report to the U.S. Securities and Exchange Commission (SEC), state their earnings according to U.S. Generally Accepted Accounting Principles (GAAP) and comply with Sarbanes-Oxley corporate governance regulations. They know that ADRs require a commitment to meeting investor expectations through transparency and regular communications to the market.

OVER-THE-COUNTER SHARES

In cases where companies are not listed on a major stock exchange, they can receive exemption from SEC registration and trade over-the-counter. Investors must call their brokers for pricing, but these companies still provide performance information in English and come with the convenience of shares quoted in dollars.

"When we created the ADR, we saw a way to make our shares available to international investors," says Mercantil Servicios Financieros President Dr. Gustavo Marturet. "Today, the benefit goes two ways: the ADR program gives international investors an opportunity to participate in the Venezuelan market, where the financial sector is benefiting from an economic environment of growth." Since the bank's holding company, Mercantil Servicios Financieros, created an OTC ADR in 1996, international investors have come to represent 20% of shareholders.

An OTC ADR can play an important role in familiarizing U.S. investors with a company. The Swiss pharmaceutical company Novartis, for example, traded OTC before upgrading to a fully registered ADR program with the NYSE and became one of the biggest stock names in the world.

A VIRTUOUS CYCLE

Because ADRs set a higher standard, companies that issue them tend to have global outlooks, high ambitions and corporate governance standards that can stand up to the scrutiny of securities regulators in two or more countries. "We have two basic principles: first, transparency; second, a deep respect for the rights of investors," says CVRD's Director of Investor Relations, Roberto Castello Branco. "These two basic pillars of corporate governance policy shape our investor relations policy and programs, dividend policy and efforts to support and retain investors globally."

In turn, this self-selection process rewards the issuer as it brings in more

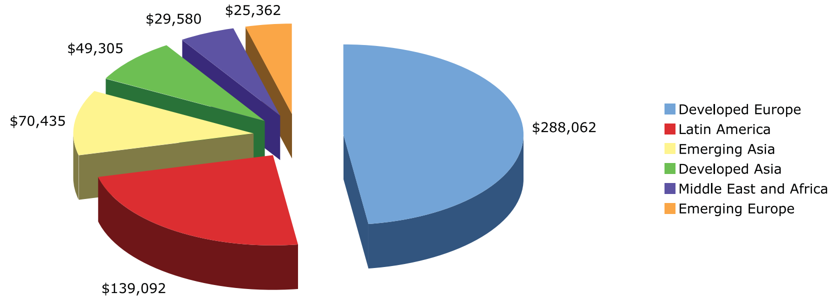
Mercantil Servicios Financieros

Over its 81 year history, Venezuela's leading financial services holding company, Mercantil Servicios Financieros, has burnished a reputation for consistently delivering steady growth. Its hallmarks — operating efficiency and risk management — have helped Mercantil build a diversified retail and corporate base of approximately 2 million clients. Mercantil holds a strong banking, insurance and asset management franchise in Venezuela. It also has presence in ten countries across the Americas and Europe.

Banco Mercantil, the group's flagship universal bank, is Venezuela's largest lender; Seguros Mercantil is the country's third-largest insurer. The group also provides investment banking services through its subsidiary, MerInvest. Mercantil's U.S. commercial banking operation, Commercebank, acquired in 1987, has ten branches in Florida, one in New York and another in Houston.

Country: Venezuela
Sector: Financial Services
Market Capitalization: $1.1 billion
Total Income 2005: $985 million
Caracas Stock Exchange Ticker: MVZ/A and MVZ/B
OTC Ticker: MSVFY
ADR:ORD: 1:4
Date of Issue: 1996
Web site: www.bancomercantil.com

Estimated 1Q06 Regional Distribution ($ millions)



Source: JPMorgan, Thomson Financial, June 2006

investment capital and makes the companies more attractive to investors. Because of this virtuous cycle, shares of companies with ADRs also tend to be the most liquid among their home-country peers.

"Liquidity equals value and Homex is now the most liquid stock among Mexican home builders," says Gerardo de Nicolas, chief executive officer of Homex. When the Mexican home builder went public in 2004, it listed simultaneously on the Mexican and New York exchanges, following the advice of a major shareholder, the real estate investment trust guru Sam ("the REIT King") Zell. A competitor beat Homex to market by listing in Mexico alone, but the extra effort to comply with U.S. standards was well worth it. Having an ADR on the NYSE established Homex's reputation as a world-class company and drew international investors, who now make up three-quarters of its shareholders. In addition, four of Homex's ten board members are from the U.S.

For these companies and their shareholders, ADRs have brought benefits across borders: access to capital that companies need to grow and higher returns for investors. That is what global investing should be all about.

LEARN MORE

Investors who want to know more about ADRs or track their holdings can do so at JPMorgan's award-winning Web site, adr.com, the central source for ADR market intelligence and data. JPMorgan also provides services to help issuers develop well-invested, liquid ADR programs.

Produced by Nuala Byrne
Edited by Laurie Corson
Designed by Arlette Henriquez

Top ADR programs by ADR $ trading value, May 2006
$ millions

Name	Total
Petroleo Brasileiro SA—Petrobras	$9,958
Cia Vale do Rio Doce	7,410
Teva Pharmaceutical Industries	6,835
BP Plc	5,767
Baidu.com, Inc.	5,677
Nokia OYJ	4,399
America Movil SA de CV	3,825
BHP Billiton Ltd.	3,652
Elan Corp. Plc	3,355
Rio Tinto Plc	2,692

Source: JPMorgan, Bloomberg, June 2006